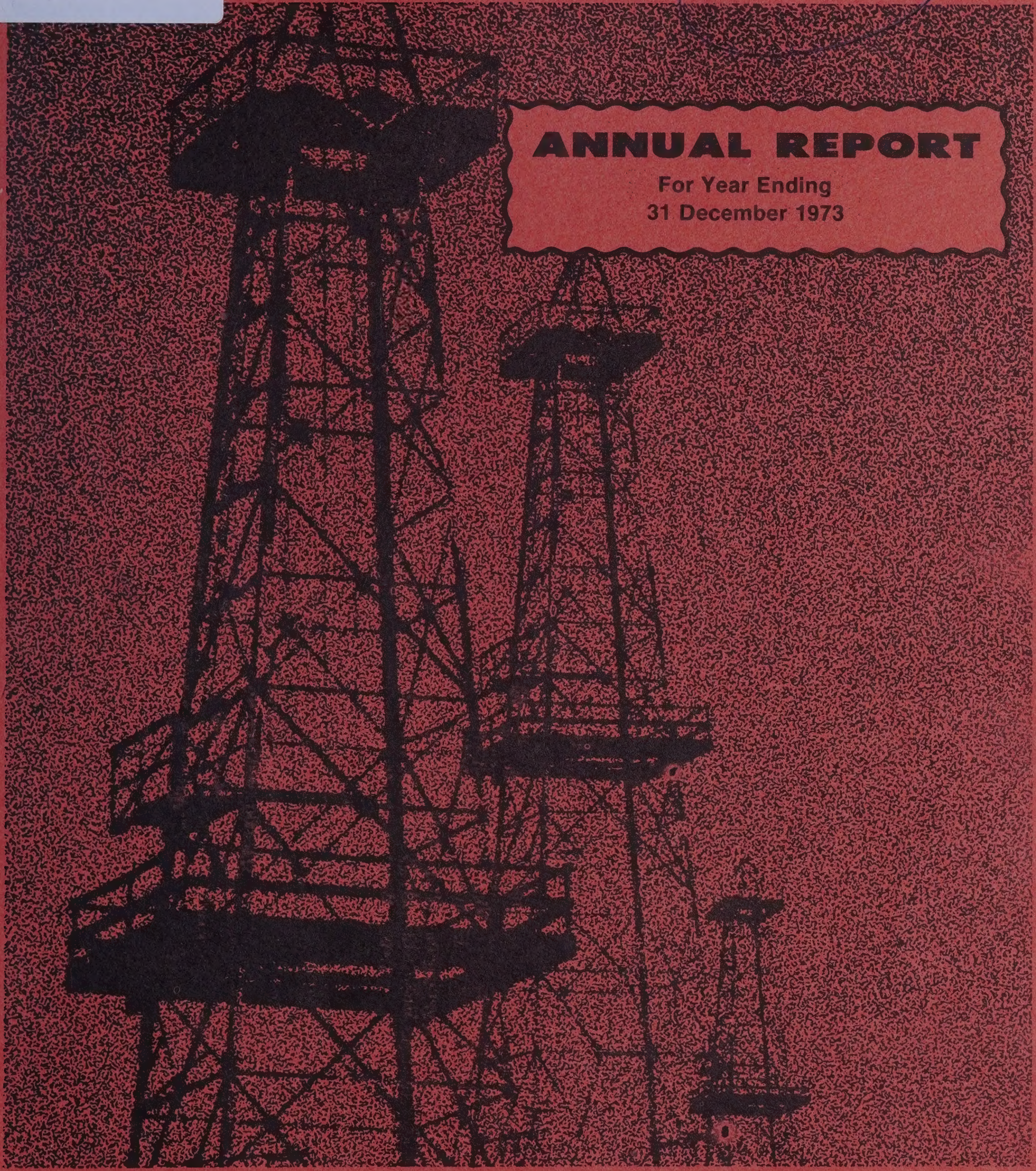
oil Corp

ANNUAL REPORT

For Year Ending
31 December 1973



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PHOENIX CANADA OIL COMPANY

LIMITED

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada, 25 November 1944

Directors	S. DONALD MOORE	Toronto, Canada
	CHARLES S. PAYSON	New York, New York
	JASON GOULD	Irvington-on-Hudson, New York
	JOHN A. MURPHY	Scarborough, Canada
Officers	S. DONALD MOORE	President
	JOHN A. MURPHY	Secretary-Treasurer
	M. SHROFF	Assistant Secretary-Treasurer
Operating Offices	EXECUTIVE OFFICES	400 — 8 King Street East Toronto, Canada
	WESTERN CANADA	502 — 630 - 8th Avenue, S.W. Calgary, Canada
	UNITED STATES	437 Madison Avenue (17th Fl.) New York, New York 10022
Banking	THE ROYAL BANK OF CANADA	
	MAIN BRANCH	Toronto, Canada
	and	
	MAIN BRANCH	Calgary, Canada
Stock Exchange Listing	CANADIAN STOCK EXCHANGE	
Transfer Agents	GUARANTY TRUST COMPANY OF CANADA	88 University Avenue Toronto, Canada
Auditor	CECIL B. BELL, C.A.	Toronto, Canada
Capitalization	AUTHORIZED	5,000,000 Shares ($1.00 par value)
	ISSUED	1,921,856 Shares

phoenix canada oil company limited

STATEMENT OF OIL PRODUCTION INCOME AND SOURCE AND APPLICATION OF FUNDS

For the Six-Months Ended 30 June 1973
(With Comparative Figures for the Period 30 June 1972)
(Prepared from Company Records without Audit)

	30 June 1973	30 June 1972
STATEMENT OF OIL PRODUCTION INCOME		
Gross Operating Revenues . . .	$1,261,361	–
Less: Operating Expenses Pipeline Tariffs	114,520	–
Net Operating Revenue. . . .	$1,146,841	–
Provision For Ecuador Taxation (Income, Export, Port, Pipeline and Exchange). . . .	$1,015,278	–
Net Oil Production Income. . .	$ 131,563	–
SOURCE OF FUNDS		
Net Oil Production Income (Statement Above) (Note I)	$ 131,563	$ –
Interest and Dividends	44	606
Reduction of Non-Current Receivable	197	–
Bank Loan	50,000	–
	$ 181,804	$ 606
APPLICATION OF FUNDS		
Exploration, Development and Administrative Expenses . . .	$ 17,011	$ 10,091
Advances to Associated Ecuador Companies	22,289	3,115
Repayment of Bank Loan . . .	50,000	–
Office Furniture	–	700
	$ 89,300	$ 13,906
Increase or (Decrease) in Working Capital	$ 92,504	$ (13,300)
Working Capital at 31 December 1972	12,090	44,018
Less: Transfer of Deferred Loan Payable to Current Loan Payable	(53,000)	–
Working Capital at 30 June 1973	$ 51,594	$ 30,718
Represented by:		
Current Assets.	$ 173,461	$ 31,816
Current Liabilities . .	121,867	1,098
	$ 51,594	$ 30,718
Earnings per Share (Note I) . . .	5.66¢	

Note I
Net Oil Production Income of $131,563 was received in 1973 to date from Texaco-Gulf and is dealt with on a cash basis. The period covered is from the mid-1972 Trans-Ecuadorian Pipeline start-up through 30 June 1973. The payments made reflect the absolute maximum of potential deductions for pipeline tariffs and all Ecuador taxation, including certain special taxation, and is without Company confirmation to date. The question of special taxation is under investigation through the appropriate official channels in Ecuador.

interim shareholder report
for the six months ended 30 June 1973

phoenix canada oil company limited

suite 400 • 8 king street east • toronto • canada • M5C 1B5

to PHOENIX shareholders:

The highlight of this 6-months review is the first oil production payments deriving from our 1% production interest in most of Texaco-Gulf's contract area in Eastern Ecuador (formerly designated the "Coca Contract"), now producing over 230,000 bbls/day (over 80% from "Coca"). The appended Interim Statement reports gross operating revenues of $1,261,361 and, after provisions for nominal operating costs and for substantial taxation, net operating income of $131,563 (figures derived from Texaco-Gulf; without Company confirmation).

During 1973's first half, pipeline throughput from the "Coca Contract" area averaged about 150,000 bbls/day. From pipeline start-up through June 1973, oil production net to the PHOENIX interest was 447,165 bbls. Oil prices rose steadily from the $2.51-$2.53 level in 1972 to $2.65 for the March quarter and an average of $3.19 for the June quarter (not including minor production allocated for domestic markets at the fixed $1.75/bbl price). Current tax reference values, since June 21, are $3.60/bbl ($3.68 for 30° crude), expected to rise to $4.30/$4.40 shortly. In July, the Government's royalty oil, received in kind, was sold on a 2-year contract at $5.09/bbl for 30° crude.

Earlier in August, Texaco-Gulf concluded a new long-term contract with Ecuador providing for a 20-year term, extendible 10-years, on production rights in the Coca Contract zone. The terms of agreement, in addition to providing long-term security for all parties, including PHOENIX, are considered equitable in today's turbulent oil world.

Sun Oil, with Japanese partners, also just signed a new long-term pact; negotiations are underway or scheduled immediately with Cayman, OKC and the ADA Group — and we expect new contract negotiations after mid-September on the PHOENIX-World Ventures (Amerada Hess et al) blocks. Pipeline expansion to 400,000 bbls/day is expected during 1974; some capacity will be reserved for the other Eastern Ecuador operators.

On our Philips-operated 109,252-acre Nigeria Lease OML96 (35.7999% of 1% of 7/8 — a gross 0.31325%), renewed development and exploratory drilling is planned for September, to extend existing high-grade light oil reserves in the Gilli Gilli and Gilli Gilli North Fields. About 10 miles southeast of the Gilli Gilli Lease block, the Pan Ocean Ogharefe #1 wildcat is rumoured a substantial oil discovery.

The impact of any special Ecuador taxation may be mitigated, at least in part, following representations now underway by our Ecuador legal counsel. An interesting prospect is presented by the consideration that our ultimate gross Ecuador tax payments may, in the future, be pooled with other foreign income to provide substantial excess foreign tax credits against domestic tax liabilities.

Submitted on Behalf of the Board:
by S. DONALD MOORE, President

31 August 1973

To The Shareholders:

The advent of the "energy crisis" epoch, with the October 1973 Middle East War, had considerable financial impact on your Company — as, indeed, on all energy industry operations. The pattern of special Ecuador taxation on our oil production income has been duplicated worldwide and is now a universal industry burden. In Canada, Western Provincial Governments sharply increased royalties, Federal export taxes were enacted, and indicated Federal oil taxation policies, disallowing deductions for royalties, produces a tax burden on Saskatchewan oil producers, for example, of about 115%. OPEC members have variously established effective tax rates, including the effects of enforced equity participation, of well over 80% — a global phenomenon mitigated only by quintupled crude oil prices which have often more than compensated for tax hikes.

In Ecuador, oil prices rose over 520% during 1973 (vs. the 94% tax increase) — from $2.60 to $2.90 on 1 April, to $3.20 on 16 May, to $3.60 on 21 June, to $5.25 on 17 October, to $7.30 on 10 November, to $10.00 on 14 December — and to $13.70 (basis 28° — or $13.90 basis 30° crude) from 1 January 1974. Also of direct effect on PHOENIX, Nigeria boosted their 1973 prices in rapid order from $4.29 to $14.69 at the year-end.

Today's grim reality is that a tightly-knit and well-organized oil exporter cartel "rides shotgun" on the Western World's energy needs. Quintupled oil prices have been in effect only a few months. The damage is already evident; the future fraught with unforeseen dangers to industrial civilization as we know it. Aside from the ruinous impact on underdeveloped nations without alternative energy sources, now also deprived of petrochemical fertilizers needed to feed already hungry multitudes, the future economic consequences of a scramble for exports among industrial nations for the means to pay for energy imports are still to be faced. We have to face hard facts — energy demand is up — costs are up — taxes are up. Oil reserve-life ratios throughout the world, particularly North America, are trending sharply downwards. Alternatives to nuclear power — and to nuclear stimulation of vast heavy oil reserves not otherwise producible by conventional means — do not appear to exist with present or foreseeable technology.

Ecuador Production Payment Interest

Ecuador is now a ranking OPEC oil exporter. Since the August 1972 Oriente pipeline start-up, throughput has steadily increased to a March 1973 average of 236,000 BOPD. Recent Ecuador policy appears to temporarily limit production increases to extend reserves-life, also in line with OPEC policies controlling production to maintain higher price levels. Pursuant to the 1972 Hydrocarbons Law and subsequent implementing Decrees, our Texaco-Gulf Coca Contract area (now designated "Aguarico-Pastaza") comprises 793,000 acres. Effective July 1974, CEPE, the Ecuadorean State oil company, purchased a 25% equity interest in the Texaco and Gulf Ecuador operating companies pursuant to August 1973 contracts between Ecuador and Texaco-Gulf. Separate CEPE association contracts with the OKC Group and with Cayman-City Investing-Southern Union were concluded in late 1973. With our Norsul partners, CEPE discussions are planned on the former Minas-Yasuni exploratory acreage where $18.5-million expenditures on six wildcats resulted in four discoveries testing low to medium gravity crude at rates from 400 to 3,000 BOPD. Extensive seismic coverage has established the existence of additional favourable structure, with several targeted for wildcat tests if economic long-term operating contracts can be concluded with CEPE.

The PHOENIX production payment interest derives from 88 wells (March 1974), 59 in Sacha Field and 29 in Shushufindi Field (from 70 total March 1973). Development drilling is proceding in the newer Auca and Cononaco Fields, wholly on Aguarico-Pastaza. Trunk pipeline extension to Auca is scheduled for early completion. This month, a new Ministerial Resolution dealing with our production interest was approved, but not yet published, pending certain amendments under consideration. Material terms cannot be discussed prior to official publication but it appears definitely established that production payments will be based on official Government reference prices, presently $13.70 (basis 28° crude) — or $13.90 for Ecuador's normal 30° low-sulphur crude.

Net oil production to the 1% PHOENIX production payment interest through 1973 (including the start-up 3rd and 4th 1972 Quarters) totaled 765,082 barrels — with gross values, as reported by Texaco-Gulf (using "West Texas sour crude" prices for the December 1973 Quarter) of US$2,212,734. Adjustments, which may be materail, cannot now be estimated; gross income for the December 1973 Quarter was reported by Texaco-Gulf on the basis of US$2.564/bbl vs. an approximate $6.62 weighted average reference price for the period.

Canadian Arctic Islands Interests

After relinquishing acreage considered nonprospective (10% working interest in 297,347 acres on Cornwallis Island), PHOENIX maintains working interests (largely 6.8%) and gross royalty interests (1.625% in 126,564 acres) in 2,601,107 acres, diversified through several Arctic Island geological provinces — including 553,610 acres within 30 miles of the non-commerical Romulus light oil discovery on Ellesmere Island; 147,823 acres on North Ellef Ringnes Island, 30 miles north of the Thor oil strike and 60 miles north of the King Christian gas play; and, currently the most important, in 830,842 acres of working and royalty interests on Northwest Bathurst Island, about 95 miles west of Drake Point gas activity — and within 25 miles of the Cameron-Bent Horn

light oil discovery — over 500 BOPD — the best Islands find to date. Several stepout and confirmation wells are planned; the first, at Roberts Harbour, is nearing total depth below 12,000 ft.

The exploratory future of this forbidding region may be better understood by relating its 650,000 square mile area with the 100,000 square mile Alaska North Slope and the 600,000 square miles comprising the five most productive U.S. oil states. The residual PHOENIX interests establish our continuing long-term participation in this developing play — keeping in mind that the late Arctic Islands pioneer, Dr. J.C. Sproule, suggested that the Islands encompass "the largest single known undeveloped oil basin in the Western Hemisphere."

Nigeria Interest

About August 1st, after extended rig availability delays, the first of at least two wildcats will start drilling on the Phillips Petroleum-operated 109,252-acre Nigeria Lease OML 96 in which PHOENIX holds a 35.7999% of 1% of 7/8 (0.31325% of gross) production interest. This block contains two field discoveries — Gilli Gilli, testing 2,400 bbls/day of 50.4° low-sulphur crude and 6.85 MMCF/day at 6,700 ft. (the confirmation well flowed 1,104 bbls/day of 49° and 528 bbls/day of 35.6° crude) — and Gilli Gilli North, testing 672 bbls/day of 49° oil at 7,200 ft. Several major structures will be tested, including an extended closure against a fault block which indicates interesting reservoir prospects. The nearby, promising Pan Ocean Ogharefe #1 discovery (a stepout is currently nearing total depth), about 10 miles southeast of the Gilli Gilli Lease, improves the area's pipeline economics (30-miles to coastal terminal).

Nuclear Stimulation — Heavy Oil Recovery System

In December, the Company entered into a joint venture (PHOENIX 70%) with Thayer Lindsley and Northfield Mines, Inc. of New York covering a patented (Canada Patent No. 774,931; "Utilization of Nuclear Energy;" issued 2 January 1968) subsurface hydrocarbon recovery technique. The proprietary technique also covers stimulation of natural gas flow in tight formations and economic mining of low grade metallic mineral resources. Initial emphasis is on the technical and economic feasibility of nuclear stimulation of heavy oil production from the subsurface Northern Alberta deposits, less than 5% of which reserves, variously estimated at up to 600-billion barrels, are recoverable by surface mining techniques.

The Lindsley-Northfield patent describes controlled nuclear detonations within the subsurface heavy oil formations to provide both thermal and seismic energy to convert otherwise immobile viscous oil deposits into conventionally recoverable reserves. A critical benefit is provided by the nuclear cavity facilitating secondary and tertiary in-situ heavy oil recovery techniques — steam injection and firefloods. Primary recovery is considered the thermal stimulation as deriving from nuclear energy — secondary recovery as deriving from thermal steam injection — tertiary recovery as the fireflood process. Each technique benefits from vastly improved access to the heavy oil formation deriving from the preceding recovery method. The fundamental advantage derives from "elbow room" provided by the approximate 150-foot diameter nuclear cavity — exposing an extensive hydrocarbon formation face to receive the requisite energy — thermal, seismic and pressure — to start the viscous oil flowing.

Project "Plowshare" (peaceful uses of atomic energy) of the U.S. Atomic Energy Commission has developed nuclear devices under 8" in diameter specially for hydrocarbon stimulation, to allow for emplacement in conventional 9-5/8" oilfield casing. Essential safety and environmental expertise has been developed from hundreds of underground detonations, including over 20 successful hydrocarbon recovery tests. The Company has established the complex formal application-approval procedures in meetings with the Alberta Department of Mines and Minerals, Canada Atomic Energy Control Board, U.S. Atomic Energy Commission, and Alberta Energy Resources Conservation Board. International controls are specified in the July 1968 Non-Proliferation Treaty governing peaceful applications of atomic energy and in the June 1955 Canada-U.S. accord establishing lines of communication with U.S. atomic energy entities. This week's U.S.-U.S.S.R. nuclear "detente" limits, as of 1976, underground testing of weapon devices with a yield over 150 kilotons; peaceful purpose experiments are excepted. PHOENIX proposes a maximum 10-kiloton yield device, an insignificant fraction of weapons yields.

We do not underestimate the monumental political, environmental, economic, technical and safety concerns that must be satisfied. Despite two decades of successful tests, a prodigious educational and public relations effort remains necessary. Given the 10-year reserves-life index of Canada's conventional oil reserves, it is clear that acceptable techniques must be found to economically recover the vast subsurface heavy oil deposits. Successful applications of nuclear energy as an in-situ recovery technique may well result in much less environmental damage, both surficial and hydrological, than conventional surface oil sands mining operations. If a more acceptable alternative to nuclear stimulation is developed, so much the better. Considering the prize, hundreds of billions of barrels of increasingly valuable energy, the rewards certainly merit our effort, costs and risk.

Gold Prospects

In Manitoba, PHOENIX maintains in good standing our original Snow Lake gold prospect of 18

patented Mining Leases. This property was worked in the 1940's under an option to Howe Sound and adjoins the former Nor-Acme Gold Mine operated by Howe Sound to 1958. Substantial ore reserves, grading about 0.15 oz/ton, remain in place at Nor-Acme. Geological studies suggest that the Nor-Acme orebody plunges toward our property at depth. These holdings are surrounded by high-grade copper producers, largely Hudson Bay operations — the Stall, Anderson, Ghost and Chisel Mines are all within 5 miles to the south, the Osborne Mine 10 miles east and Wim Lake Mine 7 miles north. Modern geophysical techniques will eventually be employed to determine our copper prospects, based on our location in the complex mineralized environment supporting the several nearby high-grade copper mines.

Your Management is currently engaged in special negotiations that would, if successfully concluded, establish for PHOENIX an interesting position in Canadian gold mining and beneficiation.

Respectfully Submitted:

28 June 1974 S. DONALD MOORE, President

NOTES TO BALANCE SHEET 31ST DECEMBER, 1973.

Note No. 1.
Accounting Policies
The Company has followed the policy of deferring all exploration, development and administration expenses. As the Company is now receiving income from its 1% Production Payment Interest in the Texaco-Gulf Coca Contract, Ecuador, Exploration and other costs of $11,379 have been written off, as well as $9,375 of administration expenses. Interests in Petroleum and Natural Gas Rights, etc., and Mining Properties are carried at cost and do not reflect the value that might be placed on the Ecuador Production Payment Interest now that the Coca Contract area is in production. The value of the exploration, development and administration expenses is dependent upon the future successful operation of the properties.

Note No. 2.
Ecuador Interests
Pursuant to Ecuador Ministerial Decree No. 11927, dated 3rd June 1974, issued by the Ecuador Minister of Natural Resources and Energy (currently in process of publication), the legal basis of the Company's Production Payment Interest deriving from the Texaco-Gulf Contract of 16th July 1965 has been defined and established in accordance with the subsisting Ecuador Hydrocarbons Law. Among material provisions affecting the Company's gross Ecuador oil production payments are; (a) that Texaco-Gulf complete quarterly production payments within 8 days of the end of each quarter, delays being subject to interest penalties; (b) that quarterly production payments shall be based on the Tax Reference Price established from time to time by the Ecuador Government (since 1st January 1974 @ $13.70 per barrel, based on 28° crude oil); and (c) that the volume of crude oil production on which the Company's production payments shall be based is established as gross oil production from the Coca Concession Contract area, less only such produced crude oil consumed in normal operations or through evaporation and for pipeline losses.

Production payments for the Fourth Quarter of 1973, as notified to the Company by Texaco-Gulf, were not made on the basis of the Ecuador Government Tax Reference Price or on gross crude oil production, as defined in Ecuador Ministerial Decree No. 11927, dated 3rd June 1974, and with certain deductions not provided for in the said Decree. No provisions have been made in these Financial Statements for any adjustments that may be made in respect of production payments due for the Fourth Quarter of 1973 under the Texaco-Gulf Contract of 16th July, 1965.

Note No. 3.
The legal proceedings instituted by the optionee of 40,000 shares reserved under the Management Incentive Stock Option Plan for personnel engaged in the Company's Ecuador exploration and development operations, pursuant to a Directors' Resolution dated 17th April 1964, were settled during 1973. The Company agreed to pay the optionee the sum of $110,000.00 in full settlement. The sum of $10,000.00 was paid during 1973 and the sum of $100,000.00 is payable in full on or before 31st August 1974. This settlement is shown as an extraordinary, non-recurring special charge against net income.

Note No. 4.
Included under share capital to be issued is 40,000 shares which are to be issued at a discount of 50% as consideration for the 1965 acquisition of 15 Arctic Island Permits aggregating 493,215 acres and $25,000 Government of Canada 3% Perpetuals and 60,000 shares which have exercised, but which have not been issued todate, pursuant to a Directors' Resolution dated 17th April 1964 reserving a total 100,000 Treasury shares to 30th June 1969 for the Management Incentive Stock Option Plan for personnel engaged in the Company's Ecuador exploration and development operations.

Note No. 5.
Deposits
This consists of a deposit of $2,750 plus interest of $1,348 in connection with possible legal costs.

Note No. 6.
Payments to Officers and Directors
During 1973 the company paid remuneration of $9,500 to one officer and one director but no remuneration was paid to the directors for their services as directors. The office of John A. Murphy, Director and Secretary-Treasurer, is to be paid $1,000 for general office services.

Note No. 7.
Income Taxes
Due to payment of direct Ecuador Income Taxes pursuant to Supreme Decree No. 602 dated May 29, 1973, and published in the Official Register of June 4, 1973, the Company has paid an excess of foreign business income tax for 1973 and therefore no Canadian Income Tax is payable for 1973. The excess of foreign business income tax paid during the year has established a foreign business income tax credit for the Company.

ASSETS

	1973	1972
CURRENT:		
Cash and Deposit Receipts	$ 36,800	$ 8,158
Marketable Securities, at cost (Market Value — 1973, $11,082; 1972, $12,314)	8,253	8,253
Accounts Receivable	46,839	652
Accrued Interest and Prepaid Expenses	223	40
	$ 92,115	$ 17,103
DEPOSITS: (Note No. 5)	$ 4,098	$ 3,798
SHARES AND ADVANCES IN OTHER COMPANIES:		
Shares at cost (unquoted securities)	$ 1,000	$ 1,000
Advances	57,072	28,372
Accounts and Notes Receivable	—	9,076
	$ 58,072	$ 38,448
FIXED: at cost		
Interests in Petroleum and Natural Gas Rights, Permits and/or Leases	$ 101,812	$ 101,812
Mining Properties	115,001	115,001
Furniture and Fixtures, less Accumulated Depreciation	1,320	961
	$ 218,133	$ 217,774
DEFERRED:		
Organization Expenses	$ 3,770	$ 3,770
Exploration, Development and Administration Expenses per Schedule "A"	323,781	317,908
	$ 327,551	$ 321,678
Total Assets	$ 699,969	$ 598,801

LIABILITIES

	1973	1972
CURRENT:		
Accounts Payable and Accrued Expenses	$ 106,320	$ 5,013
DEFERRED:		
Loan	$ —	$ 53,000

SHAREHOLDERS' EQUITY

CAPITAL:

Authorized: $5,000,000 divided into 5,000,000 shares of $1 each

	1973	1972
Issued—Fully Paid:		
1,921,856 shares of $1 each	$1,921,856	$1,921,856
Less: Discount thereon	1,661,496	1,661,496
	$ 260,360	$ 260,360
100,000 shares to be issued of $1 each (Note No. 4)	$ 100,000	$ 100,000
Less: Discount thereon	34,600	34,600
	$ 65,400	$ 65,400
Total Capital	$ 325,760	$ 325,760
Retained Earnings	$ 267,889	$ 215,028

APPROVED ON BEHALF OF THE BOARD:

S. DONALD MOORE
Director

JOHN A. MURPHY
Director

	1973	1972
Total Liabilities, Capital and Surplus	$ 699,969	$ 598,801

AUDITOR'S REPORT

To the Shareholders of

Phoenix Canada Oil Company Limited.

I have examined the Balance Sheet of Phoenix Canada Oil Company Limited as at 31st December, 1973, and the Statements of Income, Retained Earnings, Exploration Development and Administration Expenses, and Source and Application of Funds for the year then ended. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. In my opinion these financial statements present fairly the financial position of the Company as at 31st December, 1973, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year with the exception of the writing off and amortization of certain expenses as explained in Note No. 1.

Toronto, Ontario,
28th June, 1974.

Carl B. Bell
Chartered Accountant

STATEMENT OF INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 1973.

Foreign (Ecuador) Gross Operating Revenues from Oil Production	$2,212,734
Less: Direct Operating Expenses — Pipeline Tariffs	183,620
	$2,029,114
Less: Foreign (Ecuador) charges and taxation; including income and export taxes, port and pipeline charges and foreign exchange costs	1,804,910
Net Oil Production Income	$ 224,204
Less:	
Administration and General Expense	$ 40,239
Depreciation	350
Deferred Ecuador expenses written off and Amortization of Administration Expense (Note No. 1)	20,754
	$ 61,343
Net Operating Income before Extraordinary Item	$ 162,861
Extraordinary Item	
Settlement of Litigation on Incentive Option on 40,000 shares (Note No. 3)	110,000
Net Income for the Year	$ 52,861
Earnings per share	2.61 cents

Note: No comparison has been provided for 1972 as the company did not receive any oil production income in that year and it is not possible to make any comparison between 1973 and 1972.

SCHEDULE "A"

EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENSES
FOR THE YEAR ENDED 31ST DECEMBER, 1973.

	EXPLORATION AND DEVELOPMENT ADMINISTRATION			
	Mining Claims	Oil and Gas Leases	General	Total
Balance, beginning of year	$53,868	$170,287	$93,753	$317,908
Additions during year	180	26,447	—	26,627
	$54,048	$196,734	$93,753	$344,535
Less: Amortization and Ecuador Write offs	—	11,379	9,375	20,754
Balance, end of year	$54,048	$185,355	$84,378	$323,781

STATEMENT OF RETAINED EARNINGS
FOR THE YEAR ENDED 31ST DECEMBER, 1973.

	1973	1972
Balance, beginning of year	$215,028	$215,028
Net Profit for year	52,861	—
Balance, end of year	$267,889	$215,028

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED 31ST DECEMBER, 1973.

	1973	1972
SOURCE OF FUNDS		
Net Income	$ 52,861	$ —
Non Cash Items	21,104	240
Interest and Dividends	—	1,669
Proceeds of Loan	—	53,000
	$ 73,965	$54,909
APPLICATION OF FUNDS		
Exploration, Development and Administration Expenses	$ 26,627	$28,922
Repayment of Loan	53,000	—
Advances to Associated Companies	19,624	4,295
Purchase of Nigerian Royalty	—	52,500
Purchase of Fixed Assets	709	700
Deposit re Legal Costs	300	420
	$100,260	$86,837
Decrease in Working Capital	$ 26,295	$31,928
Working Capital at first of year	12,090	44,018
Working Capital (Deficiency) at end of year	$ (14,205)	$12,090